National Tool Company, Cleveland, Ohio
ANNUAL
1958
REPORT

Directors

JOHN A. BRADNER . . . . . *Cleveland, Ohio*
President, The Lees-Bradner Company

GEORGE O. DESAUTELS . . . . . *Indianapolis, Indiana*
President, George O. Desautels Company

CHARLES M. HANNUM . . . . . *Detroit, Michigan*
Partner, A. J. Brandt Company

J. VICTOR LOEWI . . . . . *Milwaukee, Wisconsin*
President, Loewi & Company, Incorporated

JOHN S. PEARSON . . . . . *New York City*

RICHARD F. STEVENS . . . . . *Cleveland, Ohio*
Partner, Baker, Hostetler & Patterson

ARTHUR T. WEST . . . . . *Cleveland, Ohio*
President, National Tool Company

Executive Committee

J. VICTOR LOEWI, *Chairman* — JOHN S. PEARSON, *Secretary*
JOHN A. BRADNER — ARTHUR T. WEST

Officers

ARTHUR T. WEST . . . . . *President*

RAY D. LINDSTROM . . . . . *Vice President and General Manager — Cleveland Operations*

E. BOWMAN STRATTON . . . . . *Vice President and General Manager — Bridgeport Operations*

RICHARD F. STEVENS . . . . . *Secretary*

WILLIAM A. JONES . . . . . *Treasurer*

LEWIS M. SHAFER . . . . . *Assistant Secretary and Assistant Treasurer*

VICTOR J. HANFORD . . . . . *Assistant Secretary*

GENERAL COUNSEL — BAKER, HOSTETLER & PATTERSON

REGISTRAR OF STOCK — THE CLEVELAND TRUST COMPANY

TRANSFER AGENT OF STOCK — THE CLEVELAND TRUST COMPANY

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS — HASKINS & SELLS

To the Shareholders and Employees of National Tool Company:

Consolidated sales in 1958 were $3,032,819 compared with $3,452,241 in 1957. The Company sustained a loss of $20,062 in 1958 compared with a profit of $58,765 in 1957.

In June, 1958, the Company converted its outstanding term loan to a new $400,000 five-year term bank loan. The lending banks have also extended open lines of credit considered ample for working capital needs.

No dividends were paid in 1958. At December 31, 1958 working capital stood at $876,522, an increase of $76,378 during the year. It is significant to note that after the most serious business recession experienced since 1937, the Company's net worth declined only $2,875 during the year.

The Cutting Tool Division

Sales of special cutting tools averaged roughly $4,000,000 per year from 1954 to 1957 inclusive. Cutting tool sales in 1958 were $2,625,924, 35% below this average. This decline reflects the nationwide business recession which affected virtually every metalworking market the Company serves. In spite of lowering the break-even point $60,000 a month, the Cutting Tool Division operated at a loss last year. It was impossible to overcome fixed costs, such as depreciation, insurance, and state and local taxes, which do not vary with volume. In addition, the increased labor and material costs could not be offset by increased prices.

In spite of the recession, the Cutting Tool Division made much progress in 1958. Permanent cost reductions were instituted. The internal organization was strengthened and the sales organization expanded. A major change was made in the manufacturing methods and in the equipment used to produce one of the Company's principal product lines. The new electronic computer is operating and has made possible reduced delivery times on certain lines. This has resulted in increased business. Sales of the new line of gear shaving tools increased three hundred percent during the year. In gaining this increase National Tool Company raised its standing in the cutting tool

industry in 1958, and obtained a larger share of the special cutting tool business available. New products are under consideration which could increase the Cleveland division's sales volume substantially.

Diversification

National Tool Company is now in its fifty-fourth year. During this time it has grown to a prominent position in a relatively small but indispensable industry—the manufacture of special cutting tools. In fact it is the only tool company in the country which offers a complete line of gear cutting tools.

The Company supplies virtually every major segment of the metal cutting industry. Special cutting tools are used in such diverse industries as machine tools, automobiles, aircraft, road building machinery, farm implements, business machines, radios, household electrical appliances, mining, oil well and power equipment.

The engineering, manufacturing and selling techniques inherent in a company as experienced as National Tool provide an ideal base from which to diversify. We are pleased to report that with its two steps toward diversification taken during 1958, the Company is now a part of the fast growing plastics industry. In June, 1958 National Tool Company acquired the Auto-Vac Company, and on December 30, formed Auto-Blow Corporation as a wholly-owned subsidiary. The Company is now comprised of the Cutting Tool Division in Cleveland, Ohio, and its plastics operations, the Auto-Vac Division and the Auto-Blow Corporation, both located in Bridgeport, Connecticut.

The Auto-Vac Division

The Auto-Vac Company of Bridgeport, Connecticut, was founded in 1952 by Mr. E. Bowman Stratton. It was acquired from him by National Tool Company on June 30, 1958. Mr. Stratton has been elected Vice President and General Manager of the Auto-Vac Division.

The Auto-Vac Company is the pioneer producer of automatic machines for thermoforming plastic sheets. Mr. Stratton developed the methods and machinery for this process which was first used for the production of plastic relief maps for the United States Army.

Thermoforming of plastic sheets is a new art and is a growth industry. It consists of forming heated plastic

An additional large potential exists for blow molded beverage containers for soft drinks and milk, hospital supplies and detergent dispensers. On the basis of economy, performance and merchandising advantages, it is believed that blow molded products should be able to capture a fair share of the "carrier" package market currently held by glass, metal, and paper.

It is difficult to predict at the present time what Auto-Blow's sales will amount to in 1959. We are, however, pleased to report that our new machine is creating widespread interest, and we feel that over a period of time Auto-Blow will add materially to the Company's overall sales and earnings.

The Outlook

National Tool Company's immediate outlook is better than it has been for 14 months. There has been a very sharp increase in new orders received by the Cutting Tool Division. New tool orders received during the first two months of 1959 were 86 percent higher than during the corresponding period in 1958. Cutting tool shipments were above breakeven in January and February and should be considerably higher in March. The backlog of unfilled tool orders has risen to one million dollars from a low of $578,000 last fall. The Auto-Vac Division's sales should amount to one quarter of a million dollars during the first quarter and will be profitable. It is not possible at this time to make an accurate forecast for Auto-Blow.

The cost reductions, new methods and increased activity at the Cleveland plant, coupled with continued high activity at the Auto-Vac Division could result in a marked increase in National Tool Company's earnings for the first six months of 1959.

The longer term outlook appears quite favorable. Auto-Blow will undoubtedly add materially to the Company's sales and earnings during the next few years. This, coupled with new products planned for the Cleveland plant, and the continuing growth of Auto-Vac portend strong earnings in the relatively near future.

Arthur T. West

President

March 17, 1959

sheets to a mold contour by differential air pressure. Auto-Vac produces a standard line of ten different types of machines, each of which employs some variation of the basic process.

Auto-Vac machines are now in use in nearly fifty industries, and have been sold in twenty foreign countries. A large potential for the sale of this equipment exists in the following fields just now beginning to realize the cost savings inherent in the process: automotive, radio and television, furniture, aircraft, machine tool, and general industrial.

The increasing importance of thermoforming is further emphasized by the fact that only 5 million pounds of plastic sheet were consumed by this industry in 1951 while in 1958, 120 million pounds were used. Informed trade sources predict that the annual consumption of plastic sheets in 1965 will amount to 250 million pounds.

Auto-Vac has operated continuously at a profit since its inception. Its earnings during the last half of 1958 helped to reduce the loss experienced in the Cutting Tool Division. It is now operating at a rate twice that ever achieved under independent operation.

Auto-Blow Corporation

On December 30, 1958 National Tool Company formed a wholly-owned subsidiary called the Auto-Blow Corporation to manufacture and sell machines to blow mold plastics.

Blow molding consists of forming hollow plastic products by expanding air into a hollow hot plastic tube entrapped in a mold. The air pressure forces the plastic into the shape of the mold after which the plastic part is then cooled and ejected.

The machinery and processes heretofore used in blow molding have been primarily custom built by the manufacturer of the plastic products and the release of information concerning the machines has been closely controlled. Such techniques and equipment have been extensively covered by United States Patents.

Auto-Blow has developed a machine which employs a new blow molding process. Patent counsel has given Auto-Blow assurance that its machine and method not only do not infringe existing patents, but also have important patentable features. Patent protection is being sought to cover these features. As far as we know, Auto-Blow is the first domestic manufacturer to offer a blow molding machine for public sale and use in the United States.

Among the products now being blow molded from plastics are squeeze bottles for pharmaceuticals and cosmetics, industrial containers for holding chemicals and acids, condiment containers, and many types of plastic toys, such as bowling pins, bats and balls, boats, squirt guns, and dolls.

National Tool Company

Statement of Consolidated Income and Earnings Retained for Use in the Business for the years ended December 31, 1958 and 1957

	YEAR ENDED DECEMBER 31	
	1958	1957
SALES AND OTHER INCOME:		
Net sales	$3,032,819	$3,452,241
Other income	2,209	1,005
Total	3,035,028	3,453,246
LESS:		
Cost of goods sold (including depreciation and amortization of $125,818 in 1958 and $110,994 in 1957)	2,463,473	2,740,914
Selling, general, and administrative expenses	606,619	612,909
Interest expense	23,403	17,500
Total	3,093,495	3,371,323
INCOME (LOSS) BEFORE PROVISION FOR FEDERAL INCOME TAXES	(58,467)	81,923
PROVISION (CREDIT) FOR FEDERAL INCOME TAXES	(38,405)	23,158
NET INCOME (LOSS)	(20,062)	58,765
EARNINGS RETAINED FOR USE IN THE BUSINESS, JANUARY 1	1,098,397	1,143,246
Total	1,078,335	1,202,011
LESS:		
Death benefits under employment contract	—0—	12,000
Dividends paid:		
Cash	—0—	75,820
Common stock—2%	—0—	15,794
Total	—0—	103,614
EARNINGS RETAINED FOR USE IN THE BUSINESS, DECEMBER 31 (Note 2)	$1,078,335	$1,098,397

The Notes to Financial Statements should be considered in conjunction with this statement.

National Tool Company

CONSOLIDATED BALANCE SHEET . . . . . .

Assets

	DECEMBER 31 1958	1957
CURRENT ASSETS:		
Cash	$ 141,011	$ 286,410
Notes and accounts receivable:		
Trade (less allowance of $12,288 for doubtful accounts)	566,558	344,785
Refund of Federal income taxes	36,100	—0—
Other	5,721	2,376
Inventories—at lower of cost (on the first-in first-out basis) or market:		
Finished and in-process products	457,029	439,091
Raw materials and supplies	281,462	324,703
Total current assets	1,487,881	1,397,365
MUTUAL INSURANCE DEPOSITS (NET) AND OTHER NONCURRENT RECEIVABLES	38,462	26,257
PROPERTY, PLANT, AND EQUIPMENT—At cost:		
Land	39,104	39,104
Buildings	423,591	414,107
Machinery and equipment	1,818,285	1,692,407
Total	2,280,980	2,145,618
Less accumulated depreciation and amortization	1,369,818	1,229,852
Property, plant, and equipment—net	911,162	915,766
DEFERRED CHARGES	97,096	96,950
TOTAL	$2,534,601	$2,436,338

. . . . . December 31, 1958 and 1957

Liabilities

	DECEMBER 31 1958	1957
CURRENT LIABILITIES:		
Notes payable:		
Banks (including $80,000 current portion of long-term notes)	$ 280,000	$ 320,000
Other	17,000	—0—
Accounts payable:		
Trade	121,207	57,444
Other	30,866	27,693
Accruals:		
Federal taxes on income	—0—	9,700
Other taxes	48,283	40,024
Salaries, wages, and commissions	96,948	118,778
Miscellaneous	17,055	23,582
Total current liabilities	611,359	597,221
LONG-TERM NOTES PAYABLE:		
Banks, maturing $20,000 quarterly (less current portion)	280,000	240,000
Other, maturing $17,000 in 1960 and $10,000 each year thereafter	47,000	—0—
Total long-term notes	327,000	240,000
CAPITAL INVESTMENT AND EARNINGS RETAINED FOR USE IN THE BUSINESS:		
Common capital stock, authorized 600,000 shares of $1 par value each; issued and outstanding, 262,786 shares (Note 1)	262,786	257,786
Excess of paid-in capital over amount assigned to capital stock (increased during the year by premium on capital stock issued for assets acquired)	255,121	242,934
Earnings retained for use in the business (Note 2)	1,078,335	1,098,397
Total capital investment, etc.	1,596,242	1,599,117
TOTAL	$2,534,601	$2,436,338

The Notes to Financial Statements should be considered in conjunction with this statement.

National Tool Company

Notes to Financial Statements for the year ended December 31, 1958

1. Under a stock option plan adopted by the shareholders April 29, 1958, 25,000 shares of common stock are reserved for issuance to officers and key employees. During the year, options on 12,000 shares were granted at $3.40 a share (the price being 95% of market price at the option date), expiring July 14, 1963.

2. The agreement relating to long-term notes payable to banks contains restrictions on distributions to stockholders based on net current assets and earnings. At December 31, 1958 none of the earnings retained for use in the business was available for distribution. Before any distribution of earnings may be made, $123,478 will have to be added to net current assets and such assets remain at least $1,000,000 after such distribution. Then approximately 50% of future earnings may be paid out.

3. At December 30, 1958, the Company formed a wholly-owned subsidiary, Auto-Blow Corporation. The assets of this corporation are consolidated with those of the parent company in the accompanying financial statements at December 31, 1958.

Opinion of Certified Public Accountants

The Shareholders and the Board of Directors of National Tool Company:

We have examined the consolidated balance sheet of National Tool Company and its subsidiary, Auto-Blow Corporation, as of December 31, 1958 and the related statement of consolidated income and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and earnings retained for use in the business present fairly the financial position of the companies at December 31, 1958 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

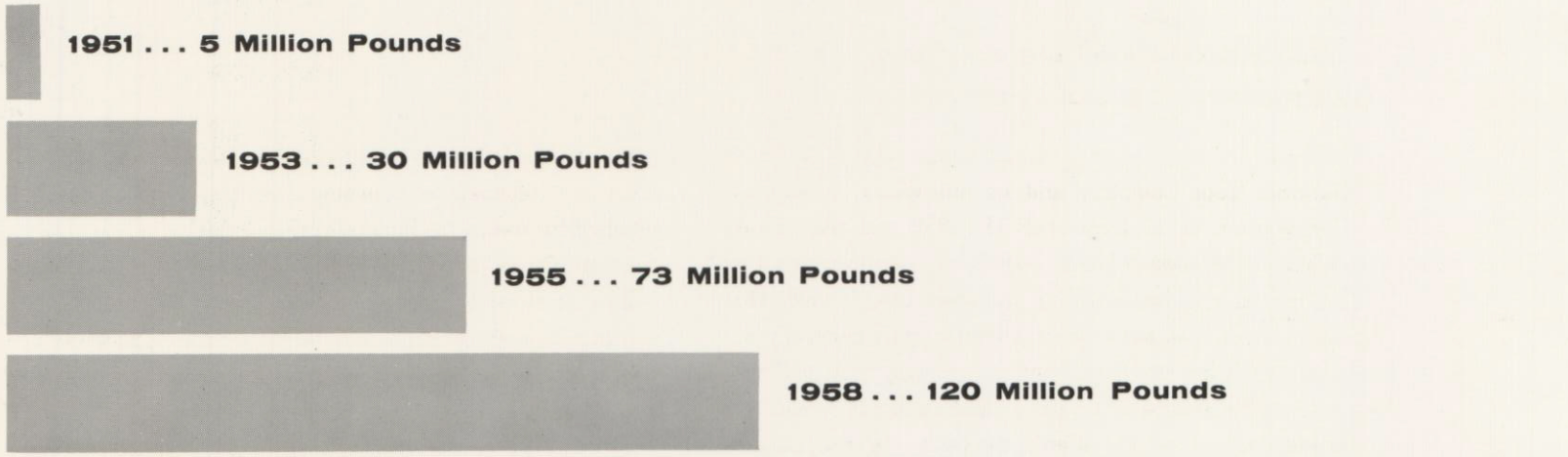
HASKINS & SELLS

Cleveland, Ohio
February 25, 1959.

Statistical Record—1948-1958

Year Ended Dec. 31	Net Sales	Net Profit or (Loss) for the Year	Net Profit or (Loss) Per Share	Total Taxes Per Share	Dividend Per Share of Common Stock	Working Capital	Net Worth	Net Worth Per Share of Common Stock
1948	2,735,617	110,154	.48	.46	15¢	456,444	1,090,802	4.75
1949	2,377,964	95,361	.41	.41	20¢	763,053	1,140,245	4.97
1950	3,137,290	168,860	.75	.81	30¢	774,165	1,221,904	5.32
1951	6,113,278	248,661	1.08	2.68	50¢	901,519	1,376,107	5.99
1952	5,446,721	151,231	.65	1.21	50¢	928,128	1,427,038	6.11
1953	5,412,018	173,787	.74	1.87	50¢	998,235	1,488,026	6.34
1954	4,160,789	120,087	.51	.83	50¢	834,146	1,490,816	6.35
1955	4,078,175	121,353	.48	.76	25¢+5% Stock	1,316,106	1,577,278	6.27
1956	4,302,103	147,237	.58	.92	40¢	1,180,727	1,628,172	6.44
1957	3,452,241	58,765	.23	.40	30¢+2% Stock	800,144	1,599,117	6.20
1958	3,032,819	(20,062)	(.08)	.15	—o—	876,522	1,596,242	6.07

Chart Showing Amount of Plastic Sheet Consumed by the Thermoforming Industry*



*Source: Modern Plastics Magazine

National Tool Company, Cleveland, Ohio

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